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# Short Memories Lead to Long-Term Consequences

## Lessons from Three Decades of Short-Term Programs in Higher Education Policy

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## Introduction

The collapse of good labor market opportunities for workers without a college degree is the elephant in the room in higher education policy discussions today. Over the last several decades, the earnings gap between those with and without a college degree has grown increasingly wide. A high school diploma no longer provides a guarantee of financial security, let alone opens the door to the middle class. Policymakers are asking what can be done to restore America's middle class and what higher education's role should be. Proposals run the gamut, from making college tuition-free so that more Americans can pursue a degree, to directing more higher education funding to shorter, non-degree programs that are easier to complete and are supposed to lead directly to a job.

The latter camp has introduced a host of proposals in recent years, known as "short-term Pell." These lawmakers and advocates call for broadening the eligibility requirements for the Pell Grant—the federal government's primary source of student aid for low-income students—to include extremely short-term job training programs (as short as eight weeks), some of which do not provide any college credit or require any college-level learning. Potential, newly eligible programs under these rule changes also run the gamut, from truck driving to emergency medical technician to help-desk operator. What these programs all share is the promise of a postsecondary credential that leads directly to a job in dramatically less time than it takes to get a two- or four-year college degree.

Policymakers must consider whether these changes to the student aid programs will open up new pathways to economic security or divert precious student financial aid dollars to programs that fail to lead to good jobs and/or altering students' educational paths and the opportunity to pursue further education. The American higher education system already does not do enough to ensure that the least advantaged students see the promise of a college degree. That needs to change. But at the same time, we have to make sure that the proposed solutions do not make things even worse. And we need to understand what has been tried in the past before funneling millions of dollars and, more importantly, millions of Black, brown, and low-income students into low-quality job training programs.

The good news is policymakers are not flying blind. Dressed up as "innovation," the idea is hardly new. While "short-term Pell" is the latest iteration of proposals of its kind, it is far from the first. In fact, since the earliest days of federal financial aid, there have been efforts to expand the reach of its funding to help Americans not interested in going to traditional college. Today, a number of short-term programs are already eligible for federal student aid. This proposal would open the door for even shorter programs. The bad news is that there is little compelling evidence that these programs offer a promising future and the historical record has shown a disturbing pattern.

Each time Congress has amended the Higher Education Act to include more vocational and job-focused programs, the federal government has struggled to contain the growth of fraudulent and predatory providers, or to ensure the quality of programs offered by even the most trusted ones. The lessons from those earlier reforms can help guide policymakers in their current efforts to address the educational needs of Americans.

## The Economic Context

Much has changed in the economy since the creation of federal higher education programs. When Congress passed the Higher Education Act (HEA) in 1965, the United States had a thriving middle class, but too many lived in poverty and were unable to access good jobs. The HEA was one of a slew of Great Society programs that aimed to level the playing field of economic opportunity, particularly for those born into poverty. The student financial aid programs created under the HEA were designed to ensure that any American able to get into college could go, no matter what their economic background. But in the late 1960s, a college education was not a prerequisite for economic security. Quite the contrary; more than 80 percent of workers with only a high school diploma lived in middle- or upper-income households. College graduates generally earned more than those without degrees, but not that much more. In the early 1970s, young adults (ages 25–32) with bachelor's degrees made about $7,500 more a year than the average high school graduate. The middle class was large, secure, and included a variety of entry points for workers with different levels of education.

Today, the U.S. looks very different. The middle class has shrunk and grown more precarious while the wealth gap between upper-income Americans and everyone else has widened significantly. The racial wealth gap between Black and white families is even more stark. The group that has suffered the steepest losses in income status over the last 50 years are adults with only a high school diploma. These adults are significantly more likely to experience bouts of poverty than their counterparts with college degrees, as well as periods of unemployment and underemployment.

As a growing share of jobs—particularly good jobs with benefits—require a bachelor's degree, the earnings gap between those with college degrees and those without today has ballooned to nearly $20,000 a year for young Americans. The shift up in educational requirements has exacerbated inequality, as Black, brown, and low-income people often struggle to afford higher education and are forced to take on more debt, or worse, never enroll and therefore miss out on the earnings premium of a college degree. Indeed, the college degree has become a stark dividing line in American society and the middle class has become smaller and less secure. It is no wonder that policymakers, the workforce community, community colleges, and others are desperate for new ways to help people gain the skills they need to be successful in today's economy.

## Why Higher Education Dollars?

The Higher Education Act may seem like an odd way to help people who do not want a college degree but seek training to get ahead in the labor market. After all, don't we have job training and vocational education programs that are designed to address just this challenge? We do, but their funding levels, governance structure, and mechanisms for participation are vastly different from those of higher education.

First and foremost, federal student aid funding dwarfs that of federal job training. The government annually spends about $130 billion on grants and loans for college students, compared to less than $10 billion annually for job training. But it is also more difficult to access federal workforce funds than federal student aid. Individuals have to apply and work with state agencies to find a provider who is certified. To receive federal financial aid, prospective students simply have to apply and then they can use their grants and loans as vouchers to essentially any college they desire. And institutions of higher education have fewer requirements and little to no accountability for the outcomes of their students compared to workforce programs, which have strings attached and are outcomes-based. It should come as no surprise that the vast federal funding for student aid has created a robust lobbying apparatus where everyone tries to get their piece of the pie. For those seeking increased funding for job training, federal student aid is more than just easy money. It is a gold mine.

Community colleges face two crises that make these proposals appealing and have led them to be one of the leading advocates for the proposals. First, state financial support for higher education has suffered for more than a decade, exacerbating existing funding inequities where states favor their four-year colleges and universities. Community colleges also serve a disproportionate share of America's low-income students despite being systemically underfunded. They also already provide job-training programs that are not funded or governed under the Higher Education Act but are eligible for workforce dollars. Second, Americans, often impoverished and desperate to provide economic security for their families, come to community college nearly every day seeking to better themselves. Community colleges rightfully want to help but are constrained by limited funding for workforce programs. But making all job training programs Pell-eligible is a slippery slope, particularly when no one is on the hook for ensuring the programs actually connect to jobs. The Pell Grant program was always designed to help people complete a college degree. The further the program moves away from that core mission, the harder it is to effectively target the funding or ensure quality.

# Background on Short-term Job Training Programs

Most short-term job training programs—and the schools or training centers that provide them—are often referred to under the blanket terms of "career, vocational, or trade." But these programs look and function very differently from program to program and school to school. To understand the history of how they have been financed and regulated, it is important to also understand the providers, the students, and what the programs have looked like over time.

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**→ WHAT IS A SHORT-TERM PROGRAM?**

The phrase "short-term program" means drastically different things depending on the context. For the purposes of this paper, it generally refers to a job-training or vocational program shorter than an associate degree, though usually about six months in length. However, programs below an associate degree can vary from just a few weeks to a full year. At times, this paper will discuss extremely short programs—shorter than six months—and specify that length. Sometimes these programs are for college credit and lead to a certificate of some sort, while others do not. When it comes to higher education and accessing federal student aid, the definition of short-term has been based on a specific length, which has changed over time. This paper will look at that history closely and see how that has changed and the tension between the need for short-term training and quality.

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## Providers and Offerings of Short-term Job Training Programs

The landscape of short-term program providers has evolved over the last 50 years. Much of this change can be attributed to a shift over the last several decades in how the U.S.—both in public policy and in business—approaches job training. Companies have increasingly relied on higher education to train their workers as changes in the labor market have increased the demand for postsecondary credentials. At the same time, the federal policies around education and training have influenced the supply, the suppliers, and the demand for programs.

For much of their history, for-profit (proprietary) colleges have been synonymous with short-term programs. While federal and state workforce dollars have funded short-term programs at both community colleges and for-profit colleges, for-

profits have, until recently, been the primary providers of short-term programs for students using federal student aid.[1] Community and technical colleges often provide non-credit job training programs, but these offerings do not receive federal student aid dollars. Private companies have also created their own programs to train current or potential employees in skills specific to their needs, either by partnering with a school or creating their own in-house.

Still, the distinction between for-profit colleges and job training programs has not always been clear. In the 1990s, Democratic Rep. William Ford, the former chair of the House Committee on Education and Labor, showed just how synonymous for-profit colleges and job-training programs were thought to be. When the *Washington Post* called Ford a strong defender and attendee of trade schools—referring to the for-profit providers—he pointed to these differences and corrected the record. He said, "I went to Henry Ford Trade School, which was a euphemistic way to describe a plan in which, at age 14, I was paid 20 cents an hour to work in the Ford Motor Company while they taught me how to use tools....That was not a trade school that trained people to work for General Motors or Chrysler or anybody else. It was intended to train me...to become a tool and die maker for Ford Motor Company."[2]

The assumption that Ford went to a for-profit college speaks to the vast market share these providers had at the time, where many viewed for-profit and short-term training as one and the same. The Venn diagram of short-term training and for-profit colleges of decades ago often looks like one circle instead of two overlapping circles. And that is especially true when talking about the programs that accessed federal student aid money.

The type of training offered by all providers has also varied over the years, covering the gamut of fields and occupations, including programs like welding, medical assisting, truck driving, auto mechanics, cosmetology, dog-grooming, and bartending, just to name a few. As the economy has changed, the definition of "vocational" has broadened to include many more industries and types of jobs. Short-term programs offered today include yoga instructing, real estate, and more. New entrants have brought in other programs, such as coding boot camps, to the space in recent years.

**"Career training schools have been, and continue to be, a vital and necessary component of our higher education system….They provide students with the avenue to acquire needed skills allowing them to enter the labor market quickly or to upgrade or build upon existing skills enabling them to get a better job."[3] - Rep. Joseph Gaydos (D-PA)**

Today, community and technical colleges, as well as private companies, offer more short-term programs, with an even greater diversity of offerings. Some four-year institutions offer a smaller number of them as well. However, for-profit colleges remain a significant player in the field, awarding 44 percent of all short-term certificates today.[4] In the past, some were delivered by correspondence.[5] Today, some are provided online.

## Students of Short-term Job Training Programs

While the providers and programs offered have shifted throughout the years, studies consistently show similarities in the types of students enrolled in them. A report from the Federal Trade Commission (FTC) in 1976 explained that students in proprietary vocational programs were more likely to be from low-income families with limited educational attainment and more likely to be students of color.[6] Today, little has changed, as students who enroll in and complete certificate programs are still more likely to come from low-income families and/or are more likely to be African American.[7]

The demographic makeup of these programs is hardly surprising, as low-income students are the ones who stand to gain the most from a quick earnings bump. They have fewer resources to pay for a longer program and, importantly, to cover their living expenses while they are enrolled. In fact, evidence suggests that the lack of access to enough financial aid for a four-year degree helps drive low-income students into shorter, cheaper programs.

# Regulatory and Legislative History of Short-Term Programs

## The Beginning of Federal Student Aid

President Lyndon B. Johnson proposed a set of “war on poverty” domestic programs in 1964 and made education a central piece of the effort. He believed every American should have an opportunity to attend higher education. “There is no more senseless waste than the waste of the brainpower and skill of those who are kept from college by economic circumstance,” he stated.[8]

President Johnson’s ideas became known as the Great Society and led to the passage of many pieces of legislation, including the Higher Education Act (HEA) of 1965. The HEA sought to extend access to college to all Americans. In his “Great Society” speech, Johnson spoke to the problem of not being able to afford higher education, noting that annually “more than 100,000 high school graduates, with proved ability, do not enter college because they cannot afford it.”[9] The law opened the door to higher education for many by creating programs to help millions of students afford college. One was the Federally Insured Student Loan (FISL) program, which provided low-interest loans. More importantly, the law created Educational Opportunity Grants, which allocated funds to institutions to help financially needy students pay for college.

Initially, only traditional higher education programs and schools could access the new grant and loan programs.[10] The law excluded proprietary and short-term vocational programs, because of a history of proprietary school owners profiteering from veterans’ education programs from the GI Bill, as well as questions raised over the quality of training provided. The Senate committee report said the authors of the legislation wanted a liberal definition of institutions that could offer vocational programs, but that “it was the determined intent, however, that the ‘fly by night’ institutions of the post-World War II era be explicitly eliminated from eligibility.”[11] However, the same year, Congress offered a federal loan alternative for short-term vocational programs by creating the National Vocational Student Loan Insurance program.[12]

Regulations defined vocational programs in 1966 to establish their eligibility to participate in the vocational loan program. This was the first instance of the federal government specifically regulating the length of a short-term program, requiring at least 300 hours of classroom training in occupational skills that were beyond a high school level.[13] For comparison, 300 classroom hours is equivalent to 8 credit hours in a traditional college course, though courses offered for credit are required to have an additional two hours of coursework outside of the classroom. Correspondence programs were required to take not less than six

months for completion, an added guardrail given the history of abuse in the veterans' education programs.[14]

Lawmakers merged the Federally Insured Student Loan and the National Vocational Student Loan Insurance programs in the 1968 amendments to the Higher Education Act, citing efficiency, making proprietary schools and short-term programs eligible for the same loan program, as well as the National Defense Student Loan programs and the College Work Study (CWS) program.[15] The primary reason Congress merged the programs was because lawmakers wanted vocational students to have greater access to loans and, at the time, few private lenders were participating in the vocational loan program.[16]

## The 1972 HEA Amendments

In 1972, Congress made sweeping changes to federal higher education law when it reauthorized the HEA. One of the most significant changes was making for-profit colleges eligible to participate in all of the federal student aid programs. Recognizing their role in job training, the 1972 HEA amendments and regulations that followed its passage defined a proprietary institution of higher education as a school offering programs at least six months long that prepared "students for gainful employment in a recognized occupation."[17] In order to receive federal grants and loans, proprietary schools had to be accredited by a nationally recognized accrediting agency and have existed for at least two years. Among other conditions, for-profit schools had to agree that they would not increase their prices in order to take advantage of the new funds available.

By allowing proprietary schools to participate in the aid programs, Congress made a significant number of short-term job-training programs eligible for federal student aid. But even while doing so, the Senate committee report expressed reservations. "The Committee is concerned with the prospect that students attracted by sophisticated advertising and unfillable promises may enroll in schools which do not offer the quality of education which the schools claim is available," the report stated. "This is the case particularly with regard to certain technical occupations, where the curricula may be many years out of date, and the students are offered courses of study for which jobs are unavailable."[18]

In the 1972 amendments, Congress also created Basic Educational Opportunity Grants (BEOG)—what would later become known as Pell Grants—in an effort to ensure access to a postsecondary education for students from low-income families. Under the program, students were to receive the grants directly and take them to any eligible institution. Sen. Claiborne Pell, the Rhode Island Democrat who sponsored the legislation creating the program, often said that "any student with the talent, desire, and drive should be able to pursue higher education," regardless of income.[19]

Proprietary institutions and vocational programs were broadly eligible to participate in the BEOG program, but it was Sen. Pell's intent that BEOG create access to a college degree. For this reason, Congress differentiated between very-short non-credit vocational programs and shorter programs offered by a postsecondary institution. The law, and eventually the regulation, allowed students enrolled in vocational programs as short as 300 clock hours to access federal loans, but said that programs must have been at least six months in length and lead to a degree or certificate to be eligible for all federal student aid programs like BEOG.

These changes expanded the definition of postsecondary education, as short-term job-training had previously been funded in other ways. But the expansion also broadened the types of programs offered by the proprietary sector. Because more people were eligible for federal aid, this sector had an incentive to create more programs to cash in on the new demand, and cash in it did. As one researcher writing about the use of aid for short-term vocational training put it, "alongside training traditionally offered by the proprietary sector in secretarial work and business, refrigeration, welding, auto mechanics, and the like, new programs sprouted offering training for truck drivers, security guards, retail clerks, and nannies."[20]

This was not the first time new funds flowing in altered the industry. Rent-seeking entities in need of revenue will often evolve, grow, or appear in the first place when there is demand—particularly when that demand is accompanied by government funds with few strings attached. When the proprietary schools gained access to GI Bill dollars the sector grew to meet the demand. Of the 8,800 private trade schools that were approved under the GI Bill, 5,600 were created after the law passed.[21] This is a trend that has persisted.

### Post-1972 HEA Investigations

Government dollars flowing to for-profit vocational schools rapidly expanded after they gained eligibility for federal student aid under the 1972 amendments. In addition to financial aid dollars, the proprietary school industry received federal funds from a number of other agencies, including rehabilitation agencies and the Bureau of Indian Affairs, and about $300 million annually in veteran benefits.

Along with these flowing dollars, there was an increase in student loan defaults and reports of abuses in the industry. Congress and the executive branch launched a series of investigations into proprietary vocational education.[22] A 1974 House Committee on Government Operations report detailed fraud, predatory recruiting, low course completion, and other concerns. The committee pointed to FTC investigations that found that accredited home study schools, also known as correspondence schools, had an 88 percent dropout rate and poor job placement.

According to the FTC, "under 10 percent of the initial enrollees in home study schools and less than 50 percent in residence schools find jobs in the field for which they were training."[23]

All too often these proprietary vocational schools were not living up to their promises that they would quickly train students and get them into jobs. "In actuality, either because of the labor market, the quality of the course, the students' qualifications, or the adequacy of the schools' placement services, most graduates do not get a job related to the school's training or, if they do, not the job they expected,"[24] the FTC report stated. And that was just for the graduates. The report continued, "moreover, because of the significant dropout rate of most schools, only a fraction of initial enrollees, as opposed to, graduates, get the job they expected to get when they signed up."[25]

The FTC provided recommendations for all of the federal agencies that interacted with these programs. For example, the FTC recommended that the Department of Health, Education, and Welfare's Office of Education, develop "eligibility regulations expeditiously, so that the Government can move rapidly against schools not providing full value to the guaranteed-loan student."[26] It also suggested that the office develop complete and accurate information, given the lack of quality data, and take action "against lenders and schools that account for a disproportionately high number of defaulted loans." In addition, the FTC recommended that proprietary vocational schools be required to disclose completion and job placement rates to students.

But it was not only proprietary schools producing poor results. One study of vocational programs found that graduates of public and proprietary schools had similarly disappointing outcomes in terms of getting jobs, regardless of sector.[27] A House committee described the study as, "paint[ing] a disturbing picture about the success of vocational training graduates in general," finding that only one in five graduates seeking technical or profession training actually got a job in those fields.[28] Instead, most ended up as clerks or in other low-paying, unrelated jobs. Of those in lower-level clerical or service worker programs, nearly eight out of ten got the jobs they were seeking, but most barely earned the federal minimum wage. Due to the poor outcomes, and the disproportionate share of low-income students and people of color enrolled in those programs, the authors reached a grim conclusion. "We conclude this latest evolution in postsecondary education that has recently been extended to the least advantaged population in the system maintains class and income inequalities rather than overcomes them," they said.[29]

In 1976, the FTC released another report after investigating proprietary vocational and home study schools.[30] The investigation specifically looked into dropout rates, refund policies, job placement issues, and regulatory patterns. It found that schools made claims to students—including guarantees of jobs after graduating—that "were almost always deceptive." The FTC reported that the

schools often misrepresented job placement and earnings outcomes to potential students. The report recommended increased regulation of the schools, including requiring specific disclosures for prospective students on their job and earnings claims, as well as dropout rates. In addition, the report called for requiring the schools that used job placement and earnings in advertising to use the actual data.

After Congress reauthorized the HEA again with the Education Amendments of 1976, the Commissioner of Education proposed new regulations for BEOG-eligible programs specifically related to program length that were parallel to statutory requirements.[31] The six-month requirement was included in law and previously mentioned in regulations for other programs, but the proposed and final rule included it in the definition of an eligible program and added clock-hour requirements.[32] Additionally, the regulations limited six-month programs to proprietary institutions and required them to be at least 16 semester or trimester hours (or 24 quarter hours), or at least 600 clock hours of supervised training. For public and nonprofit institutions, an eligible program had to have been at least 24 semester or trimester hours (or 36 quarter hours), or 900 clock hours of instruction.

Congress amended the HEA again in 1980 but made few changes to the legislation in terms of short-term programs. The amendments did repeal the provision requiring proprietary schools to agree that the aid available to students had not resulted in an increase in tuition, fees, or other charges.[33] One symbolic change renamed the Basic Educational Opportunity Grant the "Pell Grant," in honor of the senator who championed the program.

Investigations into the student aid programs persisted into the 1980s amid continued problems in the proprietary and vocational sectors. In 1984, the Government Accountability Office (GAO) investigated proprietary schools' participation in the Pell Grant program and found that schools were too lax about student eligibility requirements and this negligence contributed to a 61 percent dropout rate.[34] The GAO found that 133 schools did not comply with many of the Pell Grant program's eligibility standards. One school admitted Pell recipients into programs ranging from 6 to 12 weeks even though these programs did not meet the length requirements to be eligible. For example, a number of students were admitted into a 12-week receptionist program and received Pell and federal loans to attend.

Congress held a series of hearings leading up to the 1986 HEA reauthorization that identified several trends, including rising student loan defaults. Ted Lancaster, the president of the Associated Students at the University of Nevada, Reno, testified that vocational training programs disproportionately contributed to higher than average defaults.[35] Richard Lessman, the director of financial aid at St. Louis Community College, suggested eliminating the shortest programs from the Guaranteed Student Loan (GSL) program to address high defaults. He

told Congress to apply the standards of other Title IV (student aid) programs to the GSL program, explaining that regulations for those programs required students to be enrolled in an eligible program that could eventually lead to a baccalaureate degree.[36] Under the GSL program, students could receive loans to take any combination of courses, even if they did not lead to a degree.[37]

In keeping with Congress's desire to provide loan access to students in vocational programs, non-degree programs could access the Guaranteed Student Loan program. Congress recognized they were not traditional higher education programs and therefore relied on lenders to validate their quality. Because lenders were underwriting loans, they should have been concerned with the outcomes for students who enrolled in non-degree, short-term programs. This is very different from how the student loan program operates today. Schools as a whole, not particular programs, are accredited for the purposes of being able to offer federal grants and loans to students enrolled in degree-seeking programs.

Short-term workforce training programs work best when they are targeted and outcomes-based, but federal student financial aid operates largely as an outcomes-free, do-what-you-will voucher program. But even when there was private sector underwriting, which should have been a quality check on programs, there were still high numbers of defaults, suggesting that perhaps these programs just could not pay off for students. Lenders said as much later.

### Defaults Continued and More Hearings

Student loan defaults continued to rise, and policymakers were becoming increasingly alarmed. In March 1987, the Department of Education's inspector general reported that many programs receiving federal student aid funds were training students for occupations for which there were limited job opportunities.[38]

Members of both parties were concerned with rising defaults. The leaders of the Senate committee in charge of reauthorizing the HEA—Republican Sen. Robert Stafford of Vermont and Democratic Sen. Pell—held hearings to get to the bottom of the problem. At one of those hearings, Republican Sen. Orrin Hatch of Utah asked witnesses if there was a relationship between the type of school and high default rates. Gregory Stringer from Chase Manhattan Bank replied, "guarantee agency research seems to indicate that the shorter the academic program, the greater the risks of default."[39] The president of New York's guarantee agency echoed those comments, saying the data indicate "a strong inverse relationship between default and the number of years spent in school." In her written response, she wrote that vocational schools showed the highest default rates at 17.2 percent—two times that of two-year schools (8.6 percent) and nearly four times that of a four-year school (4.8 percent). The president of the Massachusetts

guarantee agency also replied in writing to Sen. Hatch's question that defaults were highest at "clock-hour" programs at trade and technical schools.[40]

**"Guarantee agency research seems to indicate that the shorter the academic program, the greater the risks of default."**

A number of people testified that because these programs enrolled mostly lower-income students, a significant factor causing high defaults was that low-income students were forced to borrow too much. The Massachusetts guarantee agency president recommended that clock-hour programs either get access to Pell Grants or have their ability to access the loan program limited or eliminated.[41] But evidence indicated that the reason so many students were defaulting was not because low-income students were borrowing too much, but rather the high cost and low quality of the programs being offered. The same lender who identified short programs as high-risk testified that low-level borrowing was correlated with high defaults, and that certain schools and types of programs seemed to generate higher defaults. The New York guarantee agency president said that it was the types and rates of employment and the average earnings of student borrowers that have the greatest influence on defaults. Extending Pell to these programs would not eliminate these problems. Instead, it would shift the risk to taxpayers, while not improving the employment outcomes for students.

In early 1988, Rep. Pat Williams, the Montana Democrat who was in charge of the House subcommittee with jurisdiction over federal higher education policy at the time, initiated the Belmont Task Force to study student loan defaults. Named for the Belmont Estate in Maryland where it met for three days in January, the task force's final report pointed to multiple state-level studies that indicated that those who were most likely to default on their student loans had lower balances, were dropouts, or were students enrolled in short-vocational programs.[42] The task force found that students who attended college for a year or less made up just 38 percent of the students who borrowed, but 56 percent of defaults—even though they tended to have less cumulative debt than the average borrower.

In the hearings on the task force's recommendations, lenders started to acknowledge their role as gatekeepers to low-quality programs. Stringer testified that Chase Manhattan Bank stopped lending to shorter vocational programs both because of high defaults and because it was not cost efficient to provide loans to students who tended to borrow only once and were unlikely to go on to get

further education. Even the chairman of a financial aid company that worked with proprietary schools and owned eight vocational schools acknowledged that course length was clearly related to default rates. “The student who stays longer will be better prepared, get a better job, and has a greater propensity to pay back their student loans,” he said at the hearing on the recommendations.

The House subcommittee held more hearings that summer to further explore ways to curb rising student loan defaults. Phillip White, vice chancellor at the New Jersey Department of Higher Education, recommended eliminating eligibility for federal student financial aid from programs shorter than a year due to high defaults. He argued that the Department of Education had a hard time controlling quality and that federal student aid was a poor way to finance the programs, especially given their disproportionate enrollment of low-income students:

> We should stop pretending that trade school job training programs can be financed indirectly like higher education through Pell Grants and student loans. The poor and disadvantaged in our society who choose job training programs as a way of advancement should have that training paid in part or in whole through programs similar to the Job Training Partnership Act. They also deserve a guarantee from the government that the programs available to them have been approved and offer a reasonable chance of success. That is why trade school programs should be removed from the Federal student assistance programs and funded, and regulated, through a separate program whose costs and benefits can be measured directly....Financing students for short-term training programs that are inadequately monitored causes the exploitation of the students and of Title IV. [43]

In late 1988, the Education Department issued regulations to try to reduce student loan defaults by eliminating student aid eligibility from schools with default rates deemed too high.[44] As part of the regulatory package, the Department targeted short-term vocational programs, by requiring schools that provide non-baccalaureate programs to publish consumer information, including state licensure and certification requirements, pass rates of state-required exams, program completion rates, and job placement rates.

**"Financing students for short-term training programs that are inadequately monitored causes the exploitation of the students and of Title IV."**

## Rising Debts, High Defaults, and the Nunn Committee

At the same time the Education Department was starting to take action, concerns about student loan defaults were reaching a fever pitch on Capitol Hill. Stories in the news media about fly-by-night proprietary schools set up solely to reap profits from the federal student loan programs had captured the lawmakers' attention.

The rampant abuses led to a high-profile Senate investigation of the federal student loan programs. Democratic Sen. Sam Nunn, chair of the Permanent Subcommittee on Investigations, launched the inquiry in 1989 in part to determine why student loan defaults were surging. He brought in government officials and investigators, lenders, guarantee agency officials, and the owners of short-term proprietary schools, one of whom came to the witness table in handcuffs and leg irons, to testify.[45]

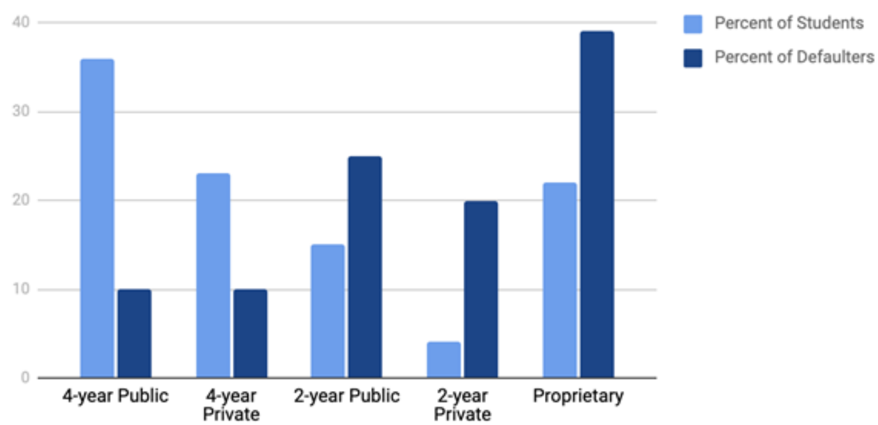
Between 1983 and 1990, the total student loan volume doubled, and the number of loan defaults grew by more than 300 percent.[46] The overall default rate itself had remained steady in the most recent years, but the costs to the government of defaults rose as the student loan portfolio grew. Much of the growth in loans could be traced back to proprietary schools, which made up 34 percent of all Guaranteed Student Loan program dollars.[47] The Supplemental Loans for Students (SLS) program, unsubsidized loans that were available at the time for independent students, experienced the greatest growth to short-term proprietary school students—from $193.5 million to $778.4 million between the 1987 and 1988 fiscal years.[48] Loans to students in short-term proprietary schools made up 80 percent of defaults in the SLS program, totaling about $250 million.[49]

In 1989, the GAO released an analysis of default rates at 7,800 postsecondary schools, seeking to understand if there was a difference in default rates based on the kinds of schools students attended and the length (in years) of programs.[50] The analysis found the highest default rates at two kinds of institutions: public colleges with programs two years or less in length and proprietary schools, which primarily offered shorter programs at the time.[51] Two-year public institutions' default rates were 2.5 times higher than four-year publics and private colleges, and proprietary schools had default rates four times higher (see Figure 1). The

GAO noted that even though four-year students received more in loan dollars, they had lower default rates.

Figure 1. Guaranteed Student Loan Borrowers and Defaulters by Sector

Borrowers in the 1983 Academic Year




Source: *Guaranteed Student Loans. Analysis of Student Default Rates at 7,800 Postsecondary Schools* GAO/HRD-89-63BR (Washington, DC: GAO, 1989), **https://files.eric.ed.gov/fulltext/ED311806.pdf**

Even as Nunn was beginning his investigation, Congress was already taking steps to try to lower default rates. The Omnibus Budget Reconciliation Act of 1989 included provisions from the Student Loan Reconciliation Amendments from that same year that prohibited loans from going to schools with default rates of 30 percent and higher. Given the concentration of defaults in short-term programs, the legislation also reduced the maximum loan a student could receive under the Supplemental Loans for Students program if they were enrolled in short-term programs.[52]

Amid Nunn's investigation and other federal efforts to address problems at proprietary schools, the Congressional Research Service (CRS) also sought to understand why default rates were so high at proprietary schools. Research had not focused specifically on proprietary school borrowers, but CRS said many studies pointed to the following characteristics of defaulters: a low-income background, students enrolled in short-term programs, and a low loan balance—all characteristics of students most commonly enrolled in proprietary schools. CRS cautioned against the suggestion of providing more grant aid to students at these schools so that they were less reliant on loans if they did not finish. While defaults might fall, CRS warned that costs could rise because "if program exploitation by short-term proprietary schools is contributing to loan losses,

Federal program losses resulting from such abuses would be magnified significantly if aid to their students were primarily in grants rather than loans."[53]

The Nunn committee hearings brought together professionals working in higher education, career and technical schools, and the student loan industry to understand the problems and how to address them. They found that fraud and abuse were widespread throughout the for-profit college sector due to the profit-seeking nature of the companies. Some of the fraud related to getting students to borrow the maximum amount possible, even without the students' knowledge. Other problems existed with students not seeing the outcomes they were led to expect.

There was clearly a concentration of defaults among short-term vocational programs and proprietary institutions. One of the problems was that some programs received federal student aid that should not have been eligible for aid in the first place. The Nunn committee found that many schools were using a method known as "course stretching," where schools extend the length of a program beyond what is needed to achieve the educational goals of the program in order to become eligible for federal student aid and/or avoid accountability measures.

Joe McCormick, president of the Texas Guaranteed Student Loan Corporation, testified about instances where training programs were well beyond the length required for state licensing. Instead of 80 hours for a security guard program or 30 hours for a bartending course, as required by the state, the programs were 300 hours in length so that they could become eligible for federal aid.[54] Rather than getting a loan for a more expensive program, students could have enrolled in the community college and paid just $96 for a program of the appropriate length.

McCormick recommended eliminating extremely short-term programs from federal student aid, urging lawmakers: "this Congress, this session, before you adjourn...require that all eligible schools are required to have a minimum of 600 clock hours, thereby eliminating all the short-term courses such as dog-grooming schools, bartending, and card-dealing schools" from federal student aid.[55] But he was clear that it was not about proprietary schools. He thought they should be included in Title IV programs, but that rules and regulations should recognize the differences between these programs and traditional higher education degrees. Nunn expressed openness to this idea but expressed concern about legislating the 600-clock hour requirement without a mechanism to monitor it and prevent course stretching.

The Department of Education's inspector general also found evidence of course stretching, similarly pointing to security guard training programs as an example. The few states that had requirements for those programs required only between 4 and 60 clock hours of training. Yet, many proprietary school programs ranged from 300 to 700 clock hours.[56] While some occupations may only need 50, 75, or

100 hours to adequately train someone, the inspector general testified that programs were "adding fluff kinds of things into it so as to meet the minimum qualifications for student aid."[57] The inspector general explained course stretching can leave students "paying as much as 38 times the tuition."[58]

Congress had identified a number of problems with short-term programs over the years. They were often too expensive, led to low wages, had poor job prospects, or all of the above. But course stretching showed that when the length of time necessary to access federal student aid was very short, the barrier of entry was low and opened the door to abuse by rent-seeking actors with minimal standards.

And because federal student aid comes with few strings attached, unlike targeted workforce training programs, the incentive for abuse was even greater. Training programs otherwise not recognized as leading to a good job could tack on unnecessary requirements so they could access federal student aid dollars rather than relying on employers to pay for the training or keeping costs low enough for students to afford them without needing loans. Artificially lengthening the time increased costs and left students and taxpayers footing the bill. So instead of providing Americans with the training or education they needed to obtain a middle-class job as Congress intended, higher education dollars were subsidizing subpar training that led to low-paying, low-quality jobs.

The Nunn Committee heard from many other witnesses. One consumer protection lawyer said Congress should differentiate between trade schools and other institutions of higher education, both in regulation and funding. She noted that the goals of trade schools consist of job training and placement, and these are much more objective and easily measured than the outcomes of a liberal arts education.

In its final report, the Nunn committee concluded that while the federal student loan program expanded access to higher education broadly, it had failed to provide access to a quality education for the Americans seeking it. The report also said the loan program failed taxpayers by making them foot the bill for billions in losses in defaulted loans, which it called "the ultimate costs of the program's failure to provide the skilled labor force" the nation needed.[59] It said the "lure of fast and easy program profits" had put the federal student loan program at risk.

The committee produced 27 broad recommendations, while acknowledging that Congress and the Department were already implementing measures to address many of the issues. Some focused on the Department's management of the federal student loan program, while others addressed the lenders themselves. Among the recommendations relating specifically to the quality of the programs themselves, it suggested that:

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Congress should consider setting reasonable limits on the type of proprietary education eligible to participate in the federal student aid programs. The Departments of Education and Labor should work with industry officials to develop information on labor market needs for the trades and skills training subsidized through student aid to avoid "the past federal financing for relatively worthless training in 'glutted' career fields."

- Congress should eliminate federal student aid eligibility for correspondence courses.

- States, with the assistance of the Education Department, should improve licensing and consumer protection to establish minimum requirements colleges would have to meet in terms of areas such as program completion, job placement rates, and admissions.

## The 1992 HEA Amendments

Congress actively considered legislation reauthorizing the Higher Education Act in 1991 and 1992—what would become the most substantial revision of the law since 1972. The committees in charge of reauthorization held more than 60 hearings to consider the revamp of the law—44 in the House and 19 in the Senate.[60] Congress considered substantial changes in order to reduce student loan defaults, rein in predatory proprietary schools, and ensure the quality of short-term job training programs.

The evidence collected by all the investigations over the years clearly suggested that the short-term programs were a major piece of the student loan default problem. As one witness testified, "the unacceptably high rate of loan defaults is largely concentrated among proprietary schools that operate short-term, narrow, job-based training programs." Witnesses also pointed to the fact that these vocational programs were not credit-bearing. Students thought they could one day go on for more training, but realized their training did not count as higher education credit that could help them towards a degree.[61]

President George H. W. Bush sought to fulfill his promise to be "the education president" by nominating Lamar Alexander, the former Republican governor of Tennessee and president of the University of Tennessee, to take over after his first secretary of education stepped down. (Alexander would go on to become a U.S. Senator from Tennessee and the ranking member and eventual chair of the Senate Health, Education, Labor, and Pensions Committee.)

Secretary Alexander came to Congress shortly after being sworn in to present the Bush administration's goals. Among other things, the administration offered a default reduction plan that included a provision calling on Congress to establish a

minimum course length of six months or 600 clock hours for schools to participate in Title IV student aid programs. Alexander's deputy, Ted Sanders, told Congress the plan would basically separate "education from very, very short-term training for the purposes of these programs."[62]

The American Council on Education (ACE), the leading college lobbying group, backed the administration's proposal. "Programs of less than 600 hours typically provide training for entry-level, minimum wage jobs, and needy students should not be permitted to assume large debts for such training," Robert Atwell, ACE's president, said in a statement for the record.[63] Marc Brenner, president and financial aid director at Ohio Auto Diesel Technical Institute and the co-chair of the National Association of Student Financial Aid Administrators (NASFAA) reauthorization task force, also agreed with raising the bar for eligibility, saying, "we believe these requirements are necessary to enhance the integrity of the program."[64]

Democratic Rep. Bart Gordon, another Tennessean, also demanded changes to address problems with vocational training and defaults. Gordon wrote in a prepared statement that many schools do not give "students a remote chance of getting a solid education, they simply churn out another diploma and turn the student out on the street with a large debt, and no job skills."[65] He disagreed with previous calls to provide more in Pell Grants to address these problems. Instead, he introduced a bill that would require accrediting agencies to consider default and completion rates and would require agencies that accredit vocational and proprietary schools take job placement rates into account.

Meanwhile, the Education Department's Office of Inspector General called on Congress to make changes to address the course-stretching that programs were using to become eligible for federal student aid and suggested that states or accreditors certify that a program's course length was appropriate for the needed training.[66]

Carl Donovan, president of the National Council of Higher Education Loan Programs (NCHELP), the group representing guarantee agencies, echoed this sentiment in a Senate hearing. He said students in programs shorter than 600 clock hours "are exactly the students who should not be borrowing."[67] Donovan agreed that students should not take out loans for courses only a few weeks long because they would likely only yield a minimum wage job insufficient to repay the debt. "While students in extremely short courses may need some sort of federal assistance, we urge that it not be loans, and that the definition of an eligible course for GSL be made the same as the definition currently applicable to Pell Grants and campus-based programs, he stated."[68]

The leaders of the House and Senate committees in charge of reauthorization took much of this under advisement when they negotiated and wrote what became the 1992 amendments to Higher Education Act. The concerns were

bipartisan. For example, Republican Rep. Paul Henry discussed the problem of short-term programs on the floor of the House and the effort to restore integrity to the student aid programs: "One of the problems we have had in higher education, as we know, is an abysmal problem, in fact, an outrageous problem with defaults and, quite frankly, kiting on the system by certain institutions who have taken advantage of naive students, advertising on the back of matchbooks, `Enroll in XYZ course and in 6 weeks you will be making $40,000 a year.'"[69]

The new law added a number of new consumer protection provisions aimed at protecting students and taxpayers from predatory for-profit colleges and other low-quality programs or schools, a few of which related to short-term programs. One accountability provision applied to all schools, but it was targeted at the for-profit colleges and community colleges with high default rates. This change lowered the default rate trigger that could cut a school off from receiving loans. If a school's default rate exceeded 25 percent for three consecutive years, or 30 percent for one year, that school could lose its eligibility for federal student loans. This change eventually led the Department of Education to effectively shut down more than 1,000 for-profit colleges, including many offering short-term programs.

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The 1992 amendments specifically addressed short-term programs and changed federal student aid eligibility requirements based on the length of programs. Up until this point, programs as short as 300 clock hours were eligible to participate in the federal student loan programs. But due to the findings of the Nunn committee, other investigations, and the recommendations made by experts, Congress created a new definition of an eligible program. This definition required that short-term programs be at least 15 weeks—or 600 clock hours—long to become eligible for all federal student aid. These limits had been in place for

programs like Pell in regulation, but this was the first time the clock-hour requirement was codified in statute, and the first time programs were required to be that long to access loans.

The Senate committee report for the legislation discussed why these extremely short programs should be eliminated from eligibility. "Previous attempts to restrict borrowing in these programs does not seem to have eliminated abuse and the Committee believes that the complete elimination of these programs is necessary," the report said.[70] But defaults were not the only problem. Because Pell Grants did not have to be repaid, taxpayers were on the hook when the investment did not pay off, either because of a fraudulent program or one that did not result in a student getting a well-paying job.

In the end, Congress wanted students to have access to loans for short-term programs, but without risk to taxpayers. For that reason, the final bill allowed students in programs that were at least 300 clock hours *and* 10 weeks long—a new addition—to be eligible for loans under a few conditions. The law required the institution or the prospective employer to co-sign the loan with the student, and loan amounts were limited to half the price of tuition. The amendments sought to eliminate entry-level programs that end in low-paying, low-skill jobs from accessing loans, so they required that students have an associate degree for admission to the short-term program, or that it be a graduate or professional program. Additionally, the legislation directed the education secretary to issue regulations requiring these programs to show both 70 percent job placement and completion.

At a press conference in 1992, Sen. Claiborne Pell said, "this is legislation that brings the opportunity of college education within the reach of the millions of young Americans that it should." He continued, "it's legislation that opens education training possibilities to individuals who would find none available," and "it's legislation crafted to make sure that a quality education, a quality one, is available to every young America [sic], or every American pursuing post-secondary education."[71]

## Post-1992 Amendments

Today, much of this same conversation is being repeated. The Workforce Innovation and Opportunity Act (WIOA) is the primary source of federal workforce training dollars, and it is targeted and outcomes-based, but it is woefully and chronically underfunded. Despite popular support for workforce and job training, there seems to be little political support to significantly increase investment.[72] That leaves many, particularly those in the workforce community searching for job training funds, to look for a bigger, easier source of funding. This has brought us the current push for Congress to fund "short-term Pell"

programs, which would allow students in programs as short as eight weeks—a shorter length than has ever been allowed—to access Pell dollars.

Pell is the go-to source for a few reasons. First, it is a big pot of money, about three times that of federal workforce dollars. Second, it essentially operates as an entitlement program, both because of its political support and because it is partially funded with mandatory spending, which means anyone who is eligible is guaranteed to get the funds. This means there is not a big political fight about it every year, and Congress would not have to appropriate all of the new money for it each year. Third, Pell Grants go to low-income students and those are students who job-training programs predominantly serve.

One of the essential functions of community colleges is to provide vocational programs. But WIOA dollars are barely budging, employers are paying for less and less training, and states are continuing to favor four-year institutions over two-year colleges in the funding formulas they use to allocate money to colleges and universities. Short-term Pell would provide a new source of funding community colleges could use to shore up their budgets. And for-profit colleges also see this as a ripe new source of funds to increase revenue with essentially condition-free money compared to WIOA, especially given their short-term offerings now, and historically.

And now, as a recession takes hold, the need to provide Americans with the skills to get a good job is even more pressing. People who have lost jobs due to the pandemic are desperate for a way to get back on their feet. The allure of enrolling in a training program for a short period of time and coming out with a well-paying job is powerful. But that allure is largely an illusion. With evidence showing that even existing short-term programs fail to pay off, how could even shorter programs provide workers with skills the labor market will reward?

Policymakers will be tempted to try almost anything to help stabilize the economy and get people back to work, but they need to learn from the recent and not-as-recent past. Decade after decade, Congress has seen the consequences of using a non-targeted, non-outcomes-based financing mechanism to pay for short-term programs. And decade after decade, the consequences fall on the Black, brown, and low-income students who are most in need of what is promised by higher education. As Congress seeks to help finance education and training programs, it should look to financing mechanisms that will not replicate the abuses and inequities of the past. Remember, an elephant never forgets, and neither should Congress. Rushing to enact short-term Pell without understanding this history is short-sighted and risks wasting taxpayer money at the expense of the low-income people who need the help the most.

## Notes

1 These programs were also typically the only ones offered by for-profit colleges. While the for-profit colleges of the 2000s have a wide variety of certificates and degrees at many levels, many did not even grant degrees up until the 1990s. This also points to how those colleges have evolved to adapt to changes in education policy.

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